

## Message Text

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ACTION EUR-25

INFO OCT-01 EA-11 ISO-00 EURE-00 AID-20 CIAE-00 COME-00

EB-11 FRB-02 INR-10 NSAE-00 RSC-01 TRSE-00 XMB-07

OPIC-12 SP-03 CIEP-02 LAB-06 SIL-01 OMB-01 NSC-07

SS-20 STR-08 CEA-02 PA-04 PRS-01 USIA-15 TAR-02 DRC-01

/173 W

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P R 171700Z MAY 74

FM AMEMBASSY ROME

TO SECSTATE WASHDC PRIORITY 4857

INFO AMEMBASSY BERN

AMEMBASSY BONN

AMEMBASSY BRUSSELS

USMISSION EC BRUSSELS

AMEMBASSY THE HAGUE

AMEMBASSY LONDON

USMISSION NATO

AMEMBASSY OTTAWA

AMEMBASSY PARIS

USMISSION OECD PARIS

AMEMBASSY STOCKHOLM

AMEMBASSY TOKYO

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E.O. 11652: N/A

TAGS: EFIN, IT

SUBJECT: FINANCIAL EFFECTS OF ITALY'S PRIOR IMPORT DEPOSITS

1. SUMMARY. ALTHOUGH IT IS RATHER EARLY TO JUDGE  
FINANCIAL EFFECTS OF ITALY'S PRIOR IMPORT DEPOSIT  
MEASURE, EVIDENCE TO DATE LEADS TO FOLLOWING CONCLUSIONS:

(1) MEASURE HAS HAD SOME EFFECT IN TIGHTENING DOMESTIC  
LIQUIDITY AS MEASURED BY INTEREST RATE MOVEMENTS; (2)

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WEIGHTED AVERAGE DEVALUATION OF LIRA HAS BEEN RELATIVELY

LITTLE AFFECTED; (3) BANK OF ITALY INTERVENTION IN EXCHANGE MARKET, ALTHOUGH STILL RESULTING IN PRECEPTIBLE EXCHANGE LOSSES, IS NOT AT HIGH LEVELS WHICH PREVAILED IN FIRST FOUR MONTHS OF THIS YEAR. END SUMMARY.

2. ALTHOUGH PRIOR IMPORT DEPOSIT MEASURE IS NOT EXCLUSIVELY RESPONSIBLE SINCE OTHER RECENT MONETARY MEASURES WERE ALSO AIMED AT TIGHTENING DOMESTIC LIQUIDITY, THERE HAS BEEN SOME RISE IN SHORT-TERM INTEREST RATES SINCE INTRODUCTION OF THE PRIOR IMPORT DEPOSIT SCHEME. FOLLOWING ARE SAMPLES OF SHORT-TERM INTEREST RATES WHICH PREVAILED ON OR ABOUT APRIL 30, 1974, COMPARED TO PREVAILING RATES ON OR ABOUT MAY 15, 1974:

|                        | APRIL 30 | MAY 15 |
|------------------------|----------|--------|
| BANK PRIME RATE        | 13-1/2   | 14-1/2 |
| 48-HOUR INTERBANK RATE | 13-3/8   | 13-5/8 |
| 3-MONTH INTERBANK RATE | 14-3/4   | 15-1/4 |
| 6-MONTH INTERBANK RATE | 15       | 15-5/8 |

3. ACCORDING TO MILAN FINANCIAL PRESS, THREE-MONTH EURODOLLAR DEPOSIT RATES ON APRIL 30 AND MAY 15 WERE 11-3/8 AND 11-3/4. THIS SUGGESTS THAT ITALIAN DOMESTIC INTEREST RATES HAVE RISEN IN LINE WITH EUROMARKET RATES BUT THAT UNCOVERED SPREAD IN FAVOR OF DOMESTIC INVESTMENTS HAS NOT INCREASED SO AS TO DISCOURAGE CAPITAL FLIGHT. HOWEVER, INCREASE IN INTEREST RATES HAS SOMEWHAT RAISED COST OF FINANCING PRIOR IMPORT DEPOSITS, WHICH SHOULD HELP TO LIMIT IMPORT DEMAND.

4. IN SOMEWHAT RELATED MEASURE, ANNOUNCEMENT WAS MADE MAY 16 THAT NEW ISSUE OF SIX-MONTH ORDINARY TREASURY BILLS ON MAY 29 IS EXPECTED TO YIELD 14.32 PERCENT. THIS COMPARES WITH 11.98 PERCENT FOR APRIL 29 ISSUE AND 9.64 PERCENT FOR MARCH 28 ISSUE. ALSO, IT IS INTENDED THAT ONE-HALF OF NEW ISSUE (1,300 BILLION LIRE) IS TO BE SOLD DIRECTLY TO COMMERCIAL BANKS SO AS TO HAVE RESTRICTIVE EFFECT ON AVAILABILITY LIMITED OFFICIAL USE

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OF BANK CREDIT. IN PREVIOUS TWO ISSUES, BOI ABSORBED (AT LEAST INITIALLY) ENTIRE AMOUNTS OF 1,250 BILLION LIRE AND 1,300 BILLION LIRE, RESPECTIVELY.

5. WEIGHTED AVERAGE LIRA DEVALUATION SINCE FEBRUARY 9, 1973 (SECOND DOLLAR DEVALUATION) WAS 21.17 PERCENT ON MAY 15, ACCORDING TO 24 ORE INDEX, AND 16.80 PERCENT ACCORDING TO BANK OF ITALY INDEX. THS

COMPARES WITH 21.79 PERCENT AND 17.24 PERCENT FOR  
TWO INDICES ON APRIL 30. IN OTHER WORDS, LIRA HAS  
STRENGTHENED ONLY ON SLIGHTLY SINCE PRIOR IMPORT DEPOSIT  
MEASURE. HOWEVER, THESE RELATIVELY SMALL CHANGES  
IN DEVALUATION INDICES OBSCURE SOME IMPORTANT  
UNDERLYING EXCHANGE RATE MOVEMENTS WHEREBY LIRA HAS  
TENDED TO STRENGTHEN AGAINST DOLLAR (EXCEPT FOR LAST  
TWO DAYS), YEN AND STERLING, WHILE LOSING GROUND  
AGAINST DM, GUILDER, SWISS FRANC, BELGIAN FRANC AND  
FRENCH FRANC.

6. FOR DISCUSSION OF EXCHANGE MARKET DEVELOPMENTS  
SEE SEPTEL. VOLPE

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## Message Attributes

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